



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

EDUCATORS HEALTH CARE

of

Murray, Utah

as of

December 31, 2008



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March 18, 2010

Honorable Neal T. Gooch, Acting Insurance Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
Virginia State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2008, has been made of the financial condition and business affairs of:

EDUCATORS HEALTH CARE
Murray, Utah

hereinafter referred to in this report as the Organization or EHC, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed our full scope financial examination of Educators Health Care. This examination covers the period of January 1, 2006 through December 31, 2008. The last financial examination was done as of December 31, 2005.

Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

The last financial examination was completed as of December 31, 2005. All issues found during the prior examination were resolved. A presentation error in the 2008 filed annual statements is identified in this report of examination under ACCOUNTS AND RECORDS.

SUBSEQUENT EVENTS

In late 2009, the controller was terminated, and replaced with two controllers concurrent with a restructuring of the accounting staff to have delineation of responsibilities between the "commercial" or for-profit, and the "education" or non-profit insurance entities. The oversight of the premium billing process will be split between the two controllers based on the respective company, and the responsibilities for accounts receivable and investments will also be divided between the two controllers.

During late 2009, Educators Mutual Insurance Association (EMIA), the parent and service provider, began implementing and testing a new claims system under contract from an outside software vendor.

On December 17, 2009, Andy Galano, president, announced his plans to retire effective March 31, 2010. EMIA's board of directors anticipates a candidate will be selected prior to Mr. Galano's departure.

ORGANIZATION HISTORY

General

The Organization filed its Articles of Incorporation (Articles) with the Department on October 1, 1979, exclusively for charitable and research purposes under Section 501(c)(3) of the Internal Revenue Code. The Articles authorized 50,000 shares of no par value common capital stock. The Organization commenced business on October 1, 1979, and holds a certificate of authority to write Health Maintenance Organization (HMO) business in Utah.

The Articles of Incorporation were amended as approved by the Department on November 20 1981, and the Organization was reorganized exclusively for the promotion of social welfare as described in Section 501 (c)(4) of the Internal Revenue Code.

There were no amendments to the Organization's articles of incorporation or bylaws since the prior examination.

Dividends and Capital Contributions

No dividends were declared or paid, and no capital contributions have been made since the prior examination.

Mergers and Acquisitions

The Organization was not involved in any acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the examination period.

CORPORATE RECORDS

Minutes of the meetings of the shareholder, directors, and committees were reviewed. The minutes indicated the Organization operates within the scope of its authority and the directors were properly informed of and participated in Organization affairs. At each annual Board of Directors meeting, a detailed report of investment transactions since the previous meeting is presented and approved. In general, the minutes of meetings of shareholder, directors, and committees adequately approved and supported the Organization's transactions and events. On January 18, 2007, the Utah Insurance Department examination report as of December 31, 2005, dated September 22, 2006, was distributed to the board, as required by U.C.A. § 31A-2-204(8).

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The Organization's bylaws require that the directors and officers be the same as those of the parent. U.C.A § 31A-8-215 applies U.C.A § 31A Chapter 5, Part IV to HMOs. U.C.A § 31A-5-408 (2) requires shareholders to elect directors.

The following persons served as directors of the Organization as of December 31, 2008:

<u>Name and Location</u>	<u>Principal Occupation</u>
Arlene Arnold Orem, Utah	Uniserv Director Eastern Utah Uniserv
Michael Evans Fillmore, Utah	Teacher Millard School District
James C. Fontaine Salt Lake City, Utah	Retired CFO Deseret Mutual Benefit Administrators
Michael R. Francis	Controller

Orem, Utah	Utah Valley University
Paul R. Gottfredson Ephraim, Utah	Business Administrator South Sanpete School District
Wallace G. Harmer Salt Lake City, Utah	Retired Business Administrator Salt Lake School District
Michael W. Hepner West Jordan, Utah	Executive Director Utah School Employees Association
Timothy Leaman Paradise, Utah	Teacher Cache County School District
Mark Mickelsen West Jordan, Utah	Executive Director, Utah Education Association
Roger A. Pate Orem, Utah	Physical Facilities Supervisor Alpine School District
Randy R. Smart Sandy, Utah	Attorney Smart, Schofield, Shorter & Lunceford
James M. Thompson Price, Utah	Teacher Carbon School District
Scott C. Thornton Centerville, Utah	Chief Actuary Deseret Mutual Benefit Administrators
Richard R. Tranter Salt Lake City, Utah	Superintendent Murray School District
Delora I. Wight Laketown, Utah	Teacher Rich School District

There were several committees of the Board of Directors as of December 31, 2008, the most significant of which are the following:

Executive Committee

Wallace G. Harmer, Chair
 Rolando I. Galano
 James C. Fontaine
 Michael W. Hepner
 Michael R. Francis

Board Review Committee A

Michael W. Hepner, Chair
 Paul R. Gottfredson
 Randy R. Smart
 Richard R. Tranter
 Delora I. Wight

Audit Committee

Michael R. Francis, Chair
 Arlene Arnold
 Wallace G. Harmer
 Roger A. Pate
 James M. Thompson

Board Review Committee B

Michael R. Francis, Chair
 Arlene Arnold
 Wallace G. Harmer
 Roger A. Pate
 James M. Thompson

Finance & Risk Management Committee

James C. Fontaine, Chair
 Michael Evans
 Timothy Leaman
 Scott C. Thornton

Board Review Committee C

James C. Fontaine, Chair
 Michael Evans
 Timothy Leaman
 Scott C. Thornton

Legislative Committee

Michael W. Hepner, Chair
 Paul R. Gottfredson
 Randy R. Smart
 Richard R. Tranter
 Delora I. Wight

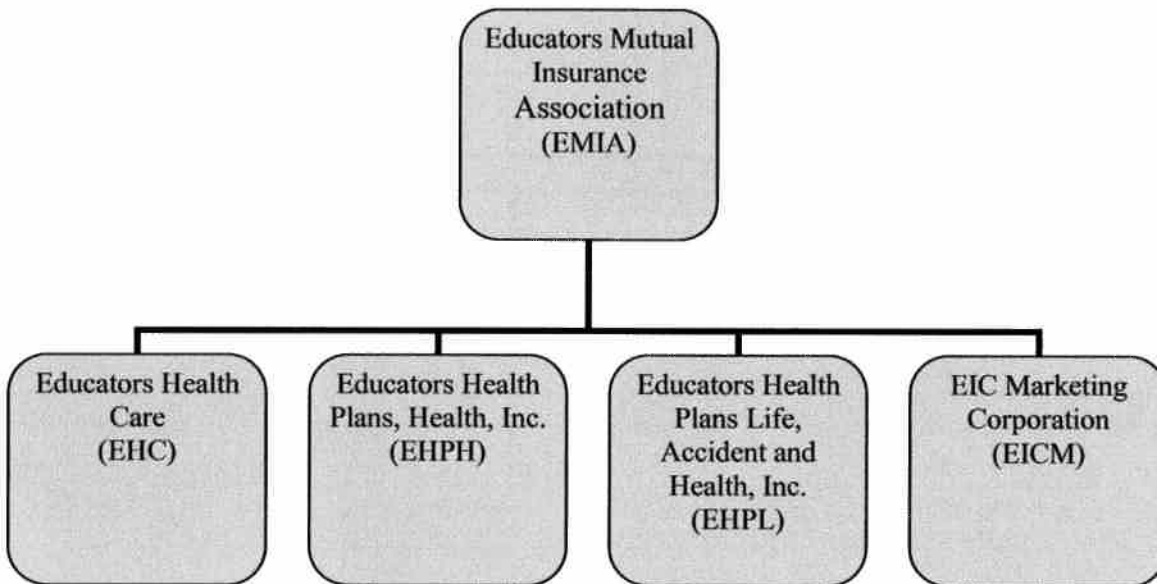
Officers of the Organization as of December 31, 2008, were the following:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Rolando I. Galano	President/Chief Executive Officer
Jennifer Q. Niesen	Secretary/Chief Operating Officer
David S. Glauser	Treasurer/Chief Financial Officer
Steven C. Morrison	Vice President
Joseph H. Campbell	Vice President
Tiffany Bermingham	Vice President
Christie H. Hawkes	Vice President
Lavern K. Zaloba	Vice President

Biographical affidavits for officers and directors were filed with the Department in accordance with U.C.A. § 31A-5-410(1)(a)(ii).

Holding Company System

The Organization is wholly owned and controlled by its parent, Educators Mutual Insurance Association. An organization chart illustrating the holding company system follows:



The ultimate parent, EMIA is a Utah domestic non-profit mutual life insurance company organized in 1935, owned one hundred percent by its member policyholders. Educators Health Care (EHC) is a Utah non-profit health maintenance organization, formed in 1979 to provide medical and dental insurance products to school districts and other governmental employee groups. Educators Health Plans, Health, Inc. (EHPH) and Educators Health Plans Life, Accident and Health, Inc. (EHPL) were both formed in 2006 as Utah for-profit insurers to provide insurance products to non-governmental employee groups. EIC Marketing Corporation (EICM) is a for-profit brokerage firm organized to market insurance and employee benefit products.

Transactions with Affiliates

Effective December 17, 1997, the Organization entered into an administrative services agreement with its parent EMIA. According to the terms of the agreement, EMIA provides marketing and administrative services to EHC, for which EHC pays EMIA a fee. The agreement was amended twice during the examination period, on February 1, 2006 and September 1, 2007, changing the fee structure in order to more properly allocate costs as the companies have evolved. Currently the fee paid for services is equal to ten percent (10%) of all premiums received by EHC. During 2008, the fees paid by EHC to EMIA totaled \$259,392. The Organization provided an explanation to the Department with its Form D filing, for the reasoning behind the changes.

The Organization cedes one hundred percent (100%) of its group medical business to its parent pursuant to a reinsurance agreement, effective January 1, 1999. The business ceded includes the Care, CarePlus, HealthChoice, HealthChoice II, Network Select & Select Care products (referred to as "The Plans"). EHC retains no premium or losses on this business. On August 23, 2006, the reinsurance agreement was amended to revise the method of reinsurance premium collection, as recommended during the prior examination.

FIDELITY BONDS AND OTHER INSURANCE

As of the examination date, the Organization participated in a fidelity bond with EMIA and its insurance subsidiaries. The minimum fidelity coverage suggested by the NAIC for EMIA and its insurance subsidiaries is not less than \$600,000. As of the examination date, EMIA and its insurance subsidiaries were covered by a fidelity bond of \$800,000, which met the NAIC suggested minimum. The Organization was also included on general liability policies, including the Errors & Omission policy and Directors' & Officers' liability policy.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization had no employees and thus had no employee benefit programs or life and health insurance plans for employees. All personnel working on behalf of the Organization are employees of the parent, and provide services pursuant to an administrative services agreement.

TERRITORY AND PLAN OF OPERATION

As of the examination date the Organization was authorized to conduct HMO business in the state of Utah and furnish health care services through arrangements with providers to enrollees. It also writes PPO dental coverage. The Organization was obligated to arrange for available accessible health care, utilizing both leased access to health care networks, and direct contracts with hospitals and physicians outside the network.

The Organization's products were marketed through an administrative services agreement with its parent, EMIA. In addition, the parent provided seminars, training sessions, and faculty meetings with employer groups, informational brochures and descriptions of the Organization's plans, which EMIA delivered to employer groups within the Organization's authorized service area.

GROWTH OF ORGANIZATION

EHC saw a significant decrease of premium and expenses in 2007 due to the shifting of commercial business to the new affiliated entities Educators Health Plans, Health, Inc. (EHPH), and Educators Health Plans Life, Accident and Health, Inc. (EHPL).

The following exhibit depicts the Organization's financial results throughout the examination period:

	2008	2007	2006
Net admitted assets	3,524,438	3,370,593	3,242,080
Total liabilities	213,854	246,765	463,564
Total capital and surplus	3,310,584	3,123,828	2,778,516
Net income (loss)	242,651	372,913	(102,779)
Direct Premium	14,435,404	13,810,146	16,106,087
Net premium	2,474,372	2,119,307	4,296,994
Net Premium/ Surplus Ratio	74.74%	67.84%	154.65%

LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Organization for the period under examination. The amounts were compiled from the Organization's filed annual statements and from examination results.

Accident and Health

	2008	2007	2006
Premiums earned	14,435,404	13,810,146	16,106,087
Incurred claims amount	13,867,491	13,425,631	15,401,533
Change in contract reserves	0	(87,682)	87,682
Loss ratio	96%	97%	96%
Number of policies	15	18	40
Number of covered lives	9,822	9,691	15,072
Member months	117,339	112,626	191,184

REINSURANCE

Ceded

The Organization cedes one hundred percent (100%) of its health business to EMIA. (TRANSACTIONS WITH AFFILIATES). During 2008, EHC reported \$11,961,032 premium ceded to EMIA with a payable to EMIA at year-end of \$9,971. EHC reported a receivable on paid losses of \$1,570,253 and unpaid losses of \$0 from EMIA.

ACCOUNTS AND RECORDS

The Organization utilizes a centralized computer record processing system, supplemented by ancillary records maintained either manually or on personal computers. A trial balance, as of December 31, 2008, was prepared from the Organization's general ledger.

An independent certified public accounting firm audited the Organization's records during the period covered by this examination. Audit reports generated by the auditors for the years 2006 through 2008 were made available for the examiners' use.

As of December 31, 2008, the assets in the statutory custodial account deposit held for the benefit of all policyholders, were not secured by a compliant custodial agreement as required by Utah Code Annotated (U.C.A.) 31 § A-4-108. During early 2009, prior to the start of the financial examination, the Association and the Department were working together to resolve this issue. A compliant custodial agreement was executed on April 27, 2009, meeting all requirements of the Utah Administrative Code (U.A.C.) Rule R590-178. The Board of Directors approved the agreement on May 28, 2009.

One reporting error was noted in which the 2008 Annual Statement Exhibit of Premium, Enrollment and Utilization was not correctly reported in accordance with the NAIC Annual Statement Instructions. This error had no impact on the Organization's balance sheet.

The examination recommends that the Organization implement a process of training and review that will enhance the accuracy of periodic financial statements, and follow the NAIC 2008 Annual Statement Instructions.

STATUTORY DEPOSITS

The Organization's statutory deposit requirement was \$550,000, pursuant to U.C.A. § 31A-8-211(1). The examination confirmed that the Organization adequately maintained a statutory deposit consisting of the following for the benefit of all policyholders, claimants and creditors of the Organization with the State of Utah.

<u>State</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Utah	FNMA Note, 3.25%, mat 5/21/10	\$ 250,000	\$ 252,447	\$ 252,025
Utah	FNMA Note, 4.05%, mat 9/18/13	150,000	150,000	152,063
Utah	US Treas Bond, 8.75%, mat 8/15/20	<u>150,000</u>	<u>150,000</u>	<u>234,164</u>
Total	Utah Insurance Department	\$ 550,000	\$ 552,447	\$ 638,252

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

EDUCATORS HEALTH CARE
BALANCE SHEET (ASSETS)
as of December 31, 2008

	Net Admitted Assets
	<hr/>
Bonds	\$ 1,998,709
Preferred stocks	77,900
Common stocks	138,932
Cash and short-term investments	1,145,390
Investment income due and accrued	32,242
Uncollected premiums and agents' balances	54,468
Receivable from parent, subsidiaries and affiliates	74,212
Healthcare and other amounts receivable	2,587
	<hr/>
Total assets	\$ 3,524,438
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EDUCATORS HEALTH CARE
BALANCE SHEET (LIABILITIES, CAPITAL AND SURPLUS)
as of December 31, 2008

Notes

LIABILITIES

Claims unpaid	\$174,940
Unpaid claims adjustment expenses	5,248
Premiums received in advance	100
General expenses due or accrued	5,277
Ceded reinsurance premiums payable	9,971
Remittances and items not allocated	10,989
Amounts due to parent, subsidiaries and affiliates	7,329
Total liabilities	<u>\$213,854</u>

CAPITAL AND SURPLUS

Common capital stock	\$330,000	
Unassigned funds (surplus)	<u>2,980,584</u>	
Total capital and surplus	<u>\$3,310,584</u>	(1)
Total liabilities, capital and surplus	<u><u>\$3,524,438</u></u>	

EDUCATORS HEALTH CARE
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2008

Net premium income	\$ 2,474,372
Aggregate write-ins for other health care related revenues	65
Total revenues	<u>\$ 2,474,437</u>
Hospital/medical benefits	2,779,607
Other professional services	8,414,393
Outside referrals	640,078
Emergency room and out-of-area	541,907
Prescription drugs	<u>1,492,205</u>
Subtotal	<u>\$ 13,868,190</u>
Less net reinsurance recoveries	11,961,032
Total hospital and medical	<u>\$ 1,907,158</u>
Claims adjustment expenses	5,248
General administrative expenses	<u>452,574</u>
Total underwriting deductions	<u>\$ 2,364,980</u>
Net underwriting gain or (loss)	<u>\$ 109,457</u>
Net investment income earned	132,117
Net realized capital gains (losses)	1,077
Net investment gains (losses)	<u>\$ 133,194</u>
Net income after capital gains tax and before all other federal income taxes	<u>\$ 242,651</u>
Federal and foreign income taxes incurred	0
Net income (loss)	<u><u>\$ 242,651</u></u>

**EDUCATORS HEALTH CARE
RECONCILIATION OF CAPITAL AND SURPLUS
2005 through 2008**

	2005	2006	2007	Per Exam 2008
Capital and surplus prior reporting year	\$2,779,673	\$ 2,781,261	\$ 2,778,517	\$ 3,123,828
Net income or (loss)	90,214	(102,779)	372,913	242,651
Change in net unrealized capital gains	(22,223)	35,076	(28,858)	(54,536)
Change in nonadmitted assets	(66,403)	64,959	1,256	(1,359)
Change in asset valuation reserve				
Surplus adjustments: Paid in				
Rounding	0			
Net change in capital and surplus	1,588	(2,744)	345,311	186,756
Capital and surplus end of reporting year	<u>\$ 2,781,261</u>	<u>\$ 2,778,517</u>	<u>\$ 3,123,828</u>	<u>\$ 3,310,584</u>

COMMENTS ON FINANCIAL STATEMENTS

(1) Capital and surplus \$3,310,584

The Organization's capital and surplus was determined to be \$3,310,584, which is the same as the amount reported in the Organization's annual statement as of December 31, 2008. The following schedule identifies any examination changes:

The Organization's minimum capital requirement was \$100,000 as defined in U.C.A. § 31A-8-209. As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of \$3,310,586, which exceeded the Organization action level risk- based capital (RBC) requirement of \$1,580,482 by \$1,730,104.

SUMMARY OF RECOMMENDATIONS

The examination recommends that the Organization, at the group level, implement a program of training and process review to improve compliance to NAIC Statement Instructions and the Statutory Accounting Principles, as adopted by Utah Code.

ACKNOWLEDGEMENT

Michael Mayberry, FSA, MAAA, of L&E Actuaries and Consultants, performed the actuarial phase of the examination. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, Donald Catmull, CFE, co-reviewer, representing the Department, supervised the examination. Aaron Phillips, CFE, and Teresa Trusty, APIR, representing the Department, participated in the examination. Brandon Thomas, HISP, of Huff, Thomas and Company performed the information systems review. They join the undersigned in acknowledging the assistance and cooperation extended during the course of this examination by officers, employees, and representatives of the Association.

Respectfully Submitted,

A handwritten signature in cursive script, reading "Carolyn Maynard".

Carolyn Maynard, CFE, Examiner-in-Charge
Huff, Thomas & Company
Representing the Utah Insurance Department